

METHODS FOR RECOGNITION AND EVALUATION OF FINANCIAL STATEMENTS OF NON-ENTREPRENEURIAL (NON-COMMERCIAL) LEGAL ENTITIES

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Abstract

The article is dedicated to the recognition and evaluation methods of financial reporting of non-profit legal entities. The authors note that the creation of financial statements of any entrepreneurial or non-profit organization is based on the IAS and IFR's international standards. Therefore, consider that it is important to analyze the standards used in the specific situation and to adapt to their various legal-legal firms. These decisions are based on the content of the work, in which the main focus is on the methods of recognition and assessment of the financial statements of non-entrepreneurial legal entities. Investigating Problems The authors conclude that the grants related to the asset are the grants granted to N(N)LE for the acquisition, creation, construction or other means of long-term assets and may provide additional terms that determine the type, deployment, acquisition of the asset or period of possession. Finally, the authors go to the conclusion that the financial statements of non-entrepreneurial legal entities are based on the use of the standard discussed in the paper.

Keywords: *financial statements, statement of full income, profit-loss reporting, assets, liabilities, own capital, revaluation reserve, impairment loss, carrying value, fair value, cost value.*

JEL Classification: *M4*

I. INTRODUCTION

It is known that in 2018 the Accounting Reporting and Audit Supervision Service approved the Financial Reporting Standards for Non-Entrepreneurial (Non-Commercial) Legal Entities, which came into force from January 1, 2018.

The standard has been developed for the preparation of financial statements of non-entrepreneurial (non-commercial) legal entities registered on the basis of the Civil Code of Georgia not aimed at entrepreneurial activities. (www.saras.gov.ge) Non-profit legal entities, which are their main activity with conducts commercial activities, financial reporting during the preparation of this standard with the use of entrepreneurship for standards (International Financial Reporting Standards, International Financial Reporting for SMEs Social enterprises standard or fourth category of financial reporting standards).

Financial Reporting Standards for Non-Entrepreneurial Legal Entities are prepared under the Law of Georgia on Accounting and Audit. In the development of the standard, experience in accounting and accounting in the private sector of Georgia and international practice of accounting for NGO sector was envisaged. (Kvatashidze, Khorava, and Gogrichiani, 2017pp.532-538)

N(N)LE is a non-entrepreneurial (non-commercial) legal entity, which is distinguished by the following facts:

- a) Provide substantial resources from the suppliers of resources, which are not expected to be compounded or proportionate to the financial backwardness;
- b) Operational purpose is different, than the profit of goods and services;
- c) Does not characterize profits from entrepreneurial activity.

In our view, it is important to use the standard, it has changed the Decree N10 of 5 April 2005 of the Commission on Accounting Standards under the Parliament of Georgia and it will help to correct the mistakes that existed in the old standard. Errors are either skipping or misrepresenting the NAP financial statements because of the lack of reliable information that has been used or incorrectly used: (Dzadzamia and Zhorzholiani, 2008 pp.307-319).

- A) was available when the financial statements of the relevant period were permitted for publication;
- B) it was legitimately expected to be retrieved during preparation of financial statements.

These mistakes include the effect of mathematical errors, errors in the use of accounting policies, excessive or unfavorable cases of facts and fraud cases.

II. RESEARCH METHODOLOGY

If this Standard does not cover the requirement of a non-entrepreneurial legal entity to a particular accounting object, then the standard financial statements set forth for the fourth category enterprises, the International Standard of Financial Reporting for Small and Medium Enterprises or International Financial Reporting Standards (IFRS) shall be used. If the present standards do not specifically address any economic activity (operation, event or circumstance), the management of the IIP shall discuss and develop and utilize such accounting policies based on the following information:

- (A) Fairly reflects the economic phenomenon;
- (B) expresses its content and not just a legal form;
- (C) is awkward.

The standard defines some of the basic information that should be submitted in the financial statements of the N(N)LE. The main purpose of the financial reporting is to include relevant information to meet the interests of donors, members, creditors and other supporters of N(N)LE 's resources. External users of the financial statements are interested to assess: a) the services provided by A) N(N)LE and its ability to continue the same service; b) fulfill the duties imposed by the governors and other issues of their activities. In more detail, financial reporting aims to provide the interested persons with the following information: a) The amount and nature of the assets, liabilities and funds of N(N)LE; B)Result of operations and other events and their impact on the amount and character of funds; C)Amount and flow of the flow and outflow of economic resources during the year, the ratio between the inflow and outflow; D) Acceptance and expenditure of cash flows, attracting and repaying loans, other factors related to N(N)LE liquidity. Preparing financial statements, as a rule, relies on a fair and fair view of the financial position of the N(N)LE, the results of its activities and the financial situation. The concepts of authenticity and justice are not discussed in these conceptual bases, but the use of basic principles, basic qualities and standards of accounting in the standards gives us the opportunity to prepare accurate and fair information. The financial statements of N(N)LE are made according to the original value.(www.matsne.gov.ge)

Practical part: In contrast, we have reviewed the financial statements used in the case of manufacturing firms where financial statements are deducted at the revaluated value of assets.

It should also be noted that the financial reporting standard of entrepreneurial and non-entrepreneurial legal entities includes the classification of the financial statements. Classification of assets and liabilities in the statement of financial position shall be calculated by participation in the turnover: short-term or long-term articles or liquidity. We can follow the definitions of the financial condition of the main articles (assets, liabilities, own capital), such as: "Assets, investment property, non-material, financial, biological assets, commodity-material values, trade and other requirements, long-term assets for sale and terminated operations, cash and its equivalents".(www.saras.gov.ge)

Liabilities. Trade and other liabilities, accruals, financial liabilities, tax liabilities.

Own capital. Issued equity capital and reserves. In addition to the above listed articles, the issuer shall present in the statement of financial position as well as additional articles, titles and total subgroups of subgroups.

Detailed information classified in subgroups depends on the requirements of the International Standards of Financial Statements (ISFS). Therefore, BASS recommends that the enterprise should evaluate the individual submissions separately:

- 1) The contents of the assets and liquidity,
- 2) Asset functions in the enterprise,
- 3) Contents of the obligations, their size and maturity terms.

For example, the main means have different contents so they need to be grouped as real (passive) and active tools. Also, different estimates of assets are the basis for their separate group. In accordance with IAS 16 "Basic Measures", some of the basic assets may be reflected in cost, with some revaluated value. The main means should be assessed at cost, which is the value of the money or money equivalents paid during the acquisition or creation of the asset. When an asset is accepted by exchange or exchange, it should be assessed at fair value. Before long-term assets, the term and residual value of their useful service should be determined.

The usefulness of the asset's useful service is determined by the period in which the enterprise's asset is expected and reliably evaluated. The residual value of the asset is an estimated amount of which the enterprise will now receive from the sale of the asset, excluding the expenses required to sell if an asset will have an expected age and condition at the end of its useful service. While the net value (net) price is the price of the sale, excluding the expenses needed to finish the product and sell. Recognizing the cost of their cost at the time of utilization of the basic means is by applying the depreciation. Depreciation is a systematic distribution of the consumed part of the value of the value, during the service period. The cost of the asset is the cost of the asset excluding the residual value. The specific value of the enterprise is the current value of the cash flows, which the enterprise expects from the asset's use and exit from the expiration of the term of service or liabilities.

Long-term assets are reflected in balance sheet. The carrying amount is the amount by which the asset is recognized after the deduction of the accumulated depreciation and the amount of accumulated impairment. BASS 36 requires a "depreciation of assets", if the value of an asset is impaired, it must be tested for impairment. The carrying amount of the asset shall not exceed its paid value. The paid value is the largest value between the net realization value and its use value. The paid value shows what is more profitable for the enterprise to use or sell the asset(www.saras.gov.ge)

Entrepreneurs can register BASS 16 with a revised value model. After recognizing an asset, the object of the basic means to determine the fair value of which can be reliably reflected in the revaluated amount. The rate of revaluation depends on changes in the real values of the basic means. When the real value of the revised asset is substantially different from its carrying amount, it is necessary to further reevaluate. For assets with relatively stable market prices, it is enough to re-evaluate once in three to five years. For example, Ltd owns a building whose initial value was estimated at 720,000 GEL, resulting in a revaluation reserve of 35 800 GEL. With the next revaluation, the fair value was estimated at 320 000 GEL. At this time, the accumulated depreciation amounted to 110 000 thousand GEL. After the revaluation of the building, the deadline for use of the building was determined for 10 years. Determining the carrying amount of the asset that is equal to the actual value obtained after the first revaluation is 110 000 GEL, the balance value is equal to 610 000 GEL. Since the real value obtained by the next revaluation we can determine the value of the asset it is equal to: the carrying amount minus revaluation of the real cost (610 000 - 320 000) 290 000 GEL.

Accumulated depreciation will be reflected in the following accounting:

Debit-2230 (Accumulated Depreciation Building) -110 000 l

Credit - 2130 (Building) ----- 110 000 GEL

Assessment of the building at the next revaluation within the revaluation reserve, ie the loss of the building loss will be recognized:

Debit-5420 (Revaluation Reserve) ----- 35 800 GEL

Credit -8220 (Non-Operational Loss) -254 200 L.

Credit - 2130 (Building) ----- 290 000 GEL

Finally, the cost of the current year's wear and tear calculation is calculated by the real value obtained after the first revaluation divided on the remaining service period which is 10 000 (10 000 000: 10) 72 000 GEL. We will have accounting:

Debit -7455 (Depreciation and Amortization) ----- 72 000 GEL

Credit-2230 (Accumulated Depreciation Building) ----- 72 000 GEL

III. RESEARCH RESULTS

N(N)LE is characterized by a donor limit, which is an agreement with the donor that determines the donor's donated asset.

The restriction imposed on donated property may be temporary or permanent, which gives a Non-business (non-commercial) Legal Entity the right to spend or exhaust the donated asset, in accordance with the restriction, and also confirmed by the passage of time or by the action of the N(N)LE.

It is also interesting when the carrying amount of the asset increases as a result of revaluation, the surplus value should be recognized in other full income and accumulated in its own capital department under the title "Revaluation Surplus". In addition, the surplus surplus must be recognized in the profit or loss as the amount required for the same asset's valuation amount, which was previously recognized in profit or loss.

If the cost of reimbursement of the asset is reduced by the carrying value, this reduction should be recognized in profit or loss, whereas the amount of reduction should be recognized in the amount of full income, the amount of credit there is in the revaluation part of this asset.

IV. CONCLUSIONS

The grants related to the asset are the grants granted to N(N)LE for the purpose of acquisition, creation, building or otherwise acquiring long-term assets. It may provide additional conditions that determine the type, deployment, period of acquisition or possession of the asset. The financial statements of non-profit (non-commercial) legal entities are drawn up at the initial cost of the asset, so it may be concluded that the creation of financial statements of N(N)LE is based on our use of the standard discussed above. This Standard assists in the creation of such financial institutions in the form of financial statements, which excludes the inconsistencies with the tax legislation and in full compliance with both in order to meet the financial statements of various enterprises, as well as internationally. The difference between production and non-production firms in the financial statements due to the fact that the first case of a multiple-use assets of the enterprise, which in turn

leads to the impairment of the asset and therefore, it is necessary to determine the fair value of the asset is impaired and impairment losses to determine what type of satsarmotatavis's not typical.

V. ACKNOWLEDGMENT

This paper was based on the International Standards of Accounting, IFRS Foundation.

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